CBO TESTIMONY

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The Cost of Providing Retirement Annuities and Veterans' Disability Compensation to Certain Retirees of the Uniformed Services

before the
Subcommittee on Personnel
Committee on Armed Services
United States Senate

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Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you this afternoon to discuss the Congressional Budget Office's (CBO's) estimate of the costs of allowing total or partial concurrent payment of retirement annuities together with veterans' disability compensation to retirees of the military, the Coast Guard, the Public Health Service (PHS), and the National Oceanic and Atmospheric Administration (NOAA) who have service-connected disabilities.

I would like to summarize my testimony by answering the following three questions:

- **What is concurrent receipt?** Under current law, veterans who are retired from the military, the Coast Guard, PHS, or NOAA cannot receive both full retirement annuities from the Department of Defense (DoD) and disability compensation from the Department of Veterans Affairs (VA). Allowing the receipt of both benefits is often referred to as "concurrent receipt." Because of the prohibition on concurrent receipt, military retirees must choose between receiving a full, but generally taxable, retirement annuity and accepting the nontaxable veterans' benefit and, in exchange, forgoing an equal amount of their retirement annuity.

- **How many retirees are affected by this prohibition?** According to DoD, in fiscal year 2002, the prohibition on receiving both retirement and VA benefits affected about 545,000 retirees of the uniformed services with normal length-of-service retirements and about 147,000 retirees of the uniformed services with disability retirements; together, those retirees had about $4 billion withheld from their annuity checks in that year to offset their VA disability compensation.

- **How much would allowing concurrent receipt cost?** CBO has not yet updated its estimates of the cost of allowing concurrent receipt to reflect the latest data. Last year, CBO estimated that providing concurrent receipt would increase direct spending by $46 billion over the 2003-2012 period. (All years referred to in this testimony are fiscal years.) In late 2002, however, lawmakers enacted legislation that authorized some retirees with combat-related disabilities to receive special compensation equivalent to concurrent receipt; that special compensation would no longer be paid if the Congress authorized concurrent receipt. Last December, CBO estimated that the special compensation program would cost $6 billion over the 2003-2012 period. After updating last year's estimates of full concurrent receipt to reflect our latest economic assumptions and to encompass the 2004-2013 period, and after subtracting our estimate of the costs associated with the recently enacted program, we estimate that the net cost of allowing concurrent receipt might be around $41 billion over the 2004-

2013 period (see Table 1). The annual cost would start at about $3 billion in 2004 and grow to about $5 billion by 2013. Those estimated costs may change, however, once we incorporate the latest population data from DoD and the department determines how it will implement the new program of special compensation for combat-related disabilities.

TABLE 1. CBO'S PRELIMINARY ESTIMATE OF THE COST OF PROVIDING CONCURRENT RECEIPT (In billions of dollars of direct spending)

	2004-2008	2004-2013
Estimated Full Cost of Concurrent Receipt	21.1	48.8
Estimated Cost of Special Compensation Programs That Would Be Eliminated	-3.2	-7.7
Estimated Net Cost of Concurrent Receipt	17.9	41.1

SOURCE: Congressional Budget Office.

NOTE: Implementing the Retired Pay Restoration Act of 2003 (S. 392) would also require an increase of $15.4 billion over the 2004-2013 period in the Department of Defense's annual payment to the Military Retirement Trust Fund. That intragovernmental transfer would be made from funds appropriated to the military personnel accounts.

I will now review several factors in more detail:

- The impact of the current prohibition on the concurrent receipt of both retirement and VA benefits;
- Recent Congressional actions to provide special payments to certain severely disabled retirees; along with the payments' estimated costs;
- The populations affected by this prohibition and their degree of disability as rated by the Department of Veterans Affairs, as well as their rate of growth over time; and
- How CBO estimated the costs of providing concurrent receipt to those retirees and the costs of recently enacted legislation that authorized some retirees to receive special compensation equivalent to concurrent receipt.

THE EFFECT OF THE PROHIBITION ON CONCURRENT RECEIPT

Data from the uniformed services indicate that in 2002, the prohibition on paying both retirement and veterans' disability compensation concurrently caused about $2.8 billion to be withheld from annuity payments to about 539,000 Department of Defense retirees with normal length-of-service retirements (also referred to as nondisability retirements) and about 6,000 Coast Guard, PHS, and NOAA retirees who fall into that category. That withholding is called the "VA offset." In addition, 144,000 DoD retirees and about 3,000 Coast Guard, PHS, and NOAA retirees with disability retirements had their annuities reduced by $1.3 billion in 2002 because of veterans' disability compensation.

Beginning in 1999, the Congress acted to partially or totally compensate some retirees for those reductions in their annuities. The two measures it passed, if they had been fully implemented in 2002, would have offset about 11 percent of the $4 billion impact of those reductions. The first of those measures, enacted as part of the National Defense Authorization Act for Fiscal Year 2000 and enhanced in the defense authorization acts for fiscal years 2001 and 2002, created a program of special compensation for certain severely disabled retirees of the uniformed services. Depending on a retiree's degree of disability, that program now provides a monthly stipend of between $50 and $325 to those retirees who were found, within four years of retirement, to have a service-connected disability that was rated as 60 percent or greater. In September 2004, the stipends will increase by $25 a month for eligible retirees whose disabilities are rated by VA or DoD as 70 percent, 80 percent, 90 percent, or 100 percent, rising to $125, $150, $250, and $350 a month, respectively. The stipend for eligible retirees who are rated 60 percent disabled will remain at $50 a month. According to DoD, that special compensation program paid an average monthly benefit of $167 to 34,533 retirees in February 2003. Including retroactive benefits, the program will cost about $77 million in 2003, CBO projects, and an average of about $100 million a year over the 2004-2013 period.

That program has been partially superseded by a second special compensation program that provides eligible retirees with a monthly benefit equal to the reduction in retirement benefits called for under current law, to the extent that the reduction is based on a qualifying combat-related disability. Retirees of the uniformed services who served for 20 or more years will be eligible to receive those payments if they have a service-connected disability that is related to the injury for which they received a Purple Heart or if they have a service-connected disability that was incurred as the result of certain duty-related activities and is rated as 60 percent or more disabling by VA. This measure was enacted as part of the National Defense Authorization Act for Fiscal Year

2003 and is scheduled to take effect in June of this year. CBO estimates that as many as 40,000 retirees may qualify for the new benefit. Many of those retirees also qualify for the first special compensation program and will have to stop receiving those benefits to qualify for the larger benefits offered under the new program. Outlays for both programs will be about $350 million in 2004, CBO estimates, and $7.7 billion over the 2004-2013 period.

Before I present CBO's cost estimates for concurrent receipt and the special compensation programs, I would like to give you a brief overview of the demographics of this retiree population because those data underpin our estimates of concurrent receipt proposals.

THE MILITARY RETIREE POPULATION

Active-duty personnel retire from the uniformed services with either a disability or a nondisability retirement. If DoD determines that a service member is unable to perform his or her duties for medical reasons, it may offer that person a disability retirement. Payments under such a retirement are based on the member's highest three years of basic pay and on either the degree of disability or the number of years of service, whichever would result in a larger annuity. A disability retirement may be granted at any point in a person's military career. In 2002, 94,000 active-duty retirees who retired with a disability retirement received annuities totaling $1.2 billion from the Military Retirement Trust Fund.[1] Most service members, however, do not receive a disability retirement but rather a nondisability, or longevity, retirement. Nondisability retirees usually have 20 years to 30 years of service, and their retirement annuity is based on both pay and years of service. In 2002, 1.4 million nondisability retirees were paid $29 billion in retirement annuities. About 75 percent of disability retirees and 36 percent of nondisability retirees have their annuities offset, or reduced, to account for disability compensation payments they receive from the Department of Veterans Affairs. In the absence of those offsets, disability annuities for active-duty retirees in 2002 would have been $1.2 billion higher and nondisability annuities, $2.8 billion higher.

Members of the National Guard and Reserve are also eligible for disability and nondisability retirements. However, while reservists may retire from active participation in the reserves after completing 20 creditable years of service, they cannot

1. Another 99,000 disability retirees received no annuity payments because their retirement annuities were totally offset by their VA disability compensation payments. The number of disability retirees who retire while on active duty includes reservists who are granted disability retirements.

receive nondisability retirement annuities before reaching age 60. According to data from DoD, 249,000 retirees of the National Guard and Reserve were paid a total of $2.8 billion in retirement annuities in 2002. Elimination of the VA offset would have added $62 million to that figure.

THE NUMBER OF RETIREES RECEIVING DISABILITY COMPENSATION FROM VA

Upon leaving uniformed service, a veteran can apply to the Department of Veterans Affairs for disability compensation if he or she believes that a physical or mental condition was caused or aggravated by uniformed service. If VA determines that to be the case, then it awards disability compensation to the veteran for the service-connected disabilities. Data provided by DoD indicate that a significant and growing proportion of retirees are found by VA to have compensable disabilities.

Nondisability Retirees

CBO's analysis of those DoD data indicates that in 1988, before DoD and VA began working together to streamline the disability application process for service members separating from the military, almost 289,000 (or 25 percent) of nondisability retirees from the active-duty military received disability compensation from VA. That percentage climbed steadily through the 1990s. By 2002, almost 527,000, or more than 36 percent, of the 1.4 million nondisability retirees were receiving VA's disability benefits.

CBO expects that growth to continue, both in percentage terms and in the absolute number of retirees receiving VA's disability benefits, because recent retiree cohorts are receiving veterans' disability compensation at rates considerably higher than the rate for the total retiree population. For example, of the 36,584 nondisability retirements from active duty in 2000, 20,449 (or 56 percent) were receiving veterans' disability compensation by the end of 2002. As long as new retirees are receiving disability compensation at rates significantly greater than that of the full population of retirees, CBO expects the number of retirees receiving veterans' disability compensation to continue to grow, even as the retired population as a whole levels off and begins to decline.

Disability Retirees

Disability retirements from the active and reserve forces have been decreasing steadily for many years; the current number of disability retirees is about 193,000. At the same time that their total number has been declining, the percentage of disability retirees receiving veterans' disability compensation has been increasing, up to its current level of 75 percent. That growth may be due, at least in part, to the fact that the tax treatment of disability annuities has changed for members who entered the uniformed services after 1975. The disability retirement annuities of older retirees were partially or totally tax free, providing less incentive for those retirees to apply for the offsetting, but tax free, veterans' benefits. Only retirees who thought the veterans' benefits might exceed their DoD annuity or who wanted to use the VA's hospitals had reason to apply to VA. For service members who retire after that date, only retirement annuities that have been awarded because of combat or combat-related injuries are tax free, and only to the extent that they are due to the disability and not to years of service. Thus, it appears that more-recent retirees have a greater incentive to apply to VA for disability compensation. Those two effects—a decreasing number of disability retirees but an increasing percentage of them receiving disability compensation from VA—have tended to offset each other in recent years, resulting in a relatively stable number of disability retirees with a VA offset. CBO expects little change in that trend over the next several years.

Reserve Retirees

About 14,500 retired reservists received disability compensation from VA in 2002. That amounts to less than 6 percent of the 251,000 nondisability reserve retirees. Because reserve retirees spend so little of their career on active duty, they find it more difficult than full-time active-duty retirees to prove that their disabling conditions are service connected. They are also less likely to be injured while on active duty. The percentage of reserve retirees receiving disability compensation decreased steadily through the 1990s, down from about 6 percent in the mid-1980s to less than 5 percent in 1999, before increasing suddenly in 2000. Reservists do not receive retirement pay before they reach age 60, so there is a gap of 10 years to 20 years between the time they end their military service and when they show up on the retiree rolls. Thus, the recent increase may be a lagged reflection of the streamlined application process that seems to have fueled the growth in receipt of disability compensation among active-duty retirees. CBO expects that trend to continue for the foreseeable future.

DEGREE OF DISABILITY AMONG MILITARY RETIREES

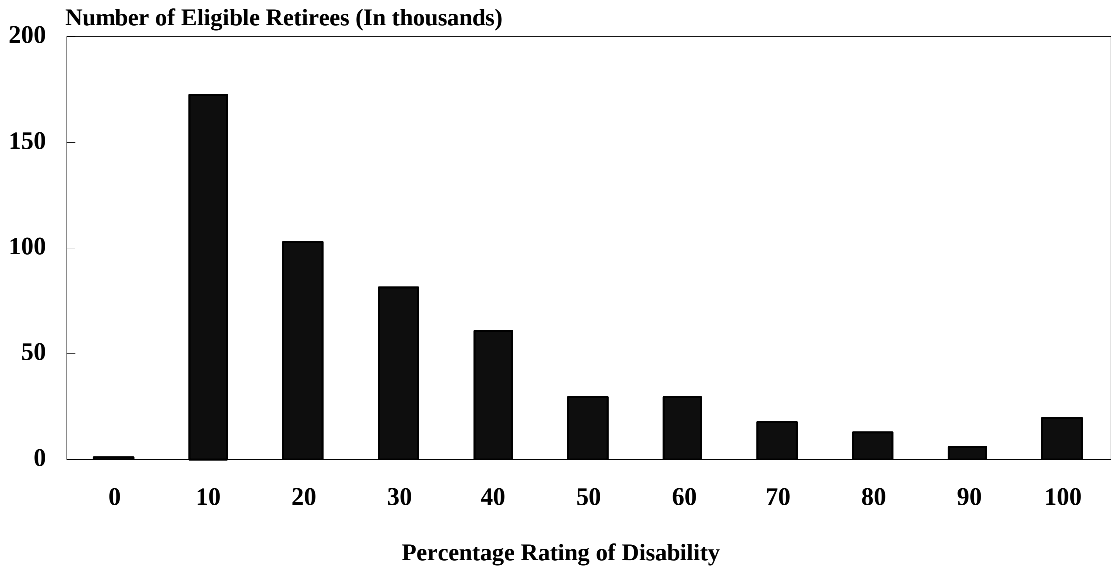
Most recent proposals to allow concurrent receipt would offer that benefit to all retirees who were eligible to retire on the basis of years of military service. That category would include all longevity retirees and those who received a disability retirement after completing at least 20 years of service. Figure 1 shows the distribution of such retirees across VA's disability ratings as of September 2001. The largest number (roughly 173,000) are rated as 10 percent disabled, and more than two-thirds (nearly 358,000) are rated 30 percent disabled or less. Only 16 percent of retirees (about 85,000) are rated by VA as 60 percent or more disabled.

Figure 2 shows how the benefits from concurrent receipt would be distributed. When the total amount of the VA offset in 2001 is distributed over VA's disability ratings, it becomes clear that the aggregate additional benefits would be more broadly distributed across ratings than are the retirees. Those rated 30 percent disabled or less account for about 30 percent of the cost but two-thirds of the retirees. The categories of 40 to 60 percent and 70 to 100 percent disabled each account for 35 percent of the cost of concurrent receipt. Overall, about half the cost would go to those rated 50 percent or less, and half would go to those rated 60 percent or greater.

THE ESTIMATED COST OF PROVIDING CONCURRENT RECEIPT

CBO most recently estimated the cost of allowing concurrent receipt of full retirement annuities and veterans' disability compensation in its cost estimate for the Retired Pay Restoration Act of 2001 (S. 170), as it was incorporated in the Senate-passed version of the 2002 defense authorization act. Senator Harry Reid has introduced a similar bill in this session of Congress (S. 392, the Retired Pay Restoration Act of 2003), but we have not completed our estimate of that bill because we have only recently received updated population data from the Department of Defense and are still awaiting information on how the department will implement the new program of special compensation for combat-related disabilities. On the basis of our previous estimates, we expect that legislation to allow concurrent receipt might increase direct spending

FIGURE 1. MILITARY RETIREES ELIGIBLE FOR CONCURRENT RECEIPT UNDER S. 392 AS OF SEPTEMBER 2001, BY VA'S DISABILITY RATING



SOURCE: Congressional Budget Office.

NOTES: VA = Department of Veterans Affairs.

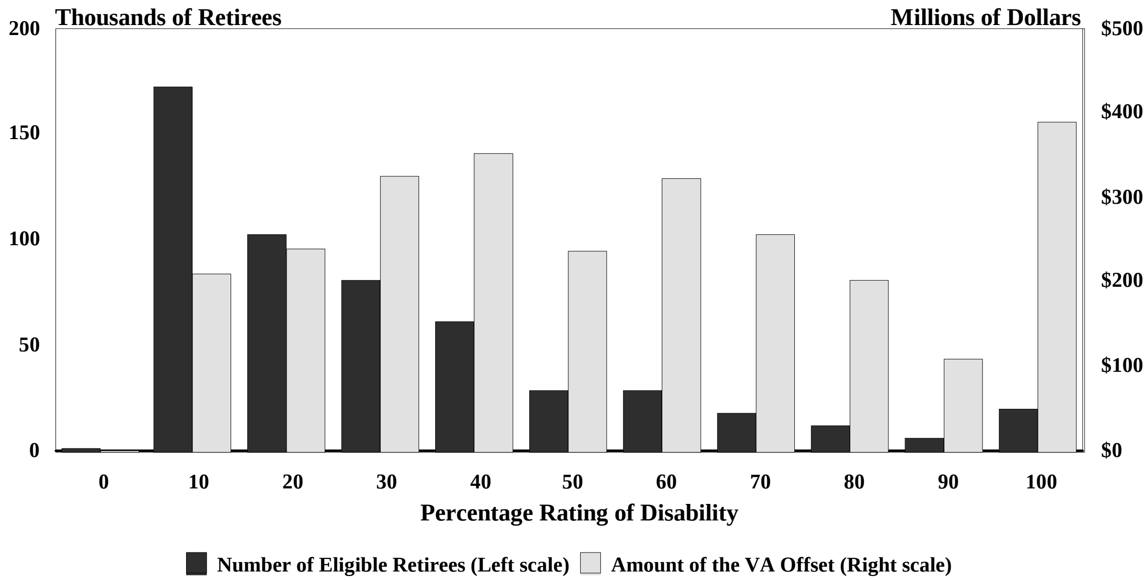
The individuals included in the zero percent rating above are veterans who have certain conditions that merit a Congressionally mandated payment, even though the conditions are not employment handicaps in these cases.

for retirement payments and veterans' disability compensation by about $41 billion over the 2004-2013 period. Those costs would increase outlays for military retirement by about 9 percent and spending for disability compensation by less than 1 percent over the 10-year period. That preliminary estimate reflects our last estimate for S.170 (covering the 2003-2012 period), updated to reflect our latest assumptions about cost-of-living adjustments and adjusted to encompass the 2004-2013 period and the impact of the recently enacted program of special compensation for combat-related disabilities.

CBO's Cost Estimate for the Retired Pay Restoration Act of 2001

The Retired Pay Restoration Act of 2001, or S. 170, would have allowed individuals who had service-connected disabilities and whose retirement annuity was based on their years of service to receive both benefits without the reduction called for under

FIGURE 2. ADDITIONAL BENEFITS THAT WOULD HAVE BEEN PAID IN 2001 UNDER CONCURRENT RECEIPT, BY VA'S DISABILITY RATING



SOURCE: Congressional Budget Office.

NOTES: VA = Department of Veterans Affairs.

The individuals included in the zero percent rating above are veterans who have certain conditions that merit a Congressionally mandated payment, even though the conditions are not employment handicaps in these cases.

current law. Individuals whose retirement pay was based on their degree of disability would have continued to forgo retirement pay equal to their disability compensation payment, but only to the extent that their disability had entitled them to a larger retirement annuity than they would have received solely on the basis of years of service.

S. 170 would also have repealed the first program of special compensation mentioned earlier, which partially compensates certain severely disabled retirees for the reduction in their retirement annuities. (S. 392 would also eliminate the second special program that offers payments for combat-related disabilities.)

CBO estimated that enacting S. 170 would have increased direct spending for retirement payments and veterans' disability compensation by about $46 billion over the 2003-2012 period (see Table 2). CBO's estimate of the total cost of S. 170 can be broken down into four components:

- Increased payments for military retirement annuities,
- Increased payments for veterans' disability compensation,
- Loss of premium payments for the Survivor Benefit Plan, and
- Savings from repealing special compensation payments for severely disabled retirees.

In addition, the Department of Defense would have had to make payments of about $15 billion over the 2003-2012 period to the Military Retirement Trust Fund to cover the increase in future liabilities for current military personnel. The increased contributions to the retirement trust fund would have come from appropriated funds. CBO estimated the cost of this bill on the basis of uniformed services data from September 2001.

TABLE 2. CBO'S ESTIMATE OF CHANGES IN DIRECT SPENDING UNDER S. 170
(In billions of dollars)

	2003-2007	2003-2012
Increased Payments for Military Retirement Annuities[a]	18.2	43.1
Increased Payments for Veterans' Disability Compensation	1.5	3.2
Loss of Receipts from Premium Payments for the Survivor Benefit Plan	*	0.1
Repeal of Special Compensation Payments for the Severely Disabled	-0.3	-0.7
Total	19.5	45.8
Memorandum:		
Intragovernmental Accrual Payment[b]	6.3	15.2

SOURCE: Congressional Budget Office.

NOTES: * = less than $50 million.

Numbers may not add up to totals because of rounding.

a. After updating this estimate to reflect CBO's latest assumptions about cost-of-living adjustments and to encompass the 2004-2013 period, CBO's preliminary estimate for increased payments for military retirement annuities is $21.1 billion over the 2004-2008 period and $48.8 billion over the 2004-2013 period.

b. Implementing the Retired Pay Restoration Act of 2001 (S. 170) would have required an increase of $15.2 billion over the 2003-2012 period in the Department of Defense's annual payment to the Military Retirement Trust Fund. That intragovernmental transfer would have been made from funds appropriated to the military personnel accounts.

I will now explain how CBO estimated the cost of each component of this estimate.

Increased Payments for Military Retirement Annuities. Since S. 170 would have treated retirees differently based on their type of retirement—normal length-of-service (nondisability) or disability—CBO's estimate of the potential costs of the legislation depended on the number of beneficiaries, their type of retirement, their disability levels, and the benefit amounts.

Nondisability Retirees. A regular, or nondisability, retirement is granted on the basis of length of service—usually 20 or more years. Like all veterans, regular retirees are entitled to apply to VA at any time to receive disability compensation for injuries or conditions that were incurred or aggravated during military service and that VA determines to be partially or totally disabling. The Retired Pay Restoration Act of 2001 would have allowed those retirees to receive full retirement annuities and veterans' disability benefits with no offset. Data from the uniformed services indicated that in 2001, the prohibition on paying both benefits concurrently caused about $2.4 billion to be withheld from annuity payments to about 511,000 DoD retirees with nondisability retirements and about 5,200 Coast Guard, 900 PHS, and 50 NOAA retirees who fell into the nondisability category. CBO estimated that that caseload would rise to about 614,000 nondisability retirees in 2004 and 670,000 by 2012. Under the assumption that future benefit payments would increase both from cost-of-living adjustments and because of growth in average disability levels, CBO estimated that implementing the legislation would increase direct spending for DoD nondisability retirement annuities by about $40 billion over the 2003-2012 period. The cost to the other uniformed services (non-DoD) would be $430 million over the 2003-2012 period, CBO estimated (see Table 3).

Disability Retirees. Service members who are found to be unable to perform their duties because of service-connected disabilities may be granted a disability retirement. S. 170 would have allowed disability retirees to receive retirement annuities based on their years of service as well as veterans' disability benefits with no offset.

A disability retirement annuity is usually the product of an individual's basic pay and his or her degree of disability. However, if the individual has 20 or more years of service and thus is also eligible for a nondisability retirement, the disability annuity may be calculated on the basis of years of service if that calculation yields a greater annuity. Under S. 170, retirees whose disability retirement annuity was greater than the amount they were entitled to receive on the basis of years of service would have

TABLE 3. ESTIMATED NUMBER OF RETIREES AFFECTED BY CONCURRENT RECEIPT IN 2012 AND THE COST OF ANNUITIES OVER THE 2003-2012 PERIOD

	Estimated Number of Retirees in 2012	Cost of Annuities over the 2003-2012 Period (Outlays, in billions of dollars)
Nondisability Retirees		
DoD	664,000	39.7
Other uniformed services	6,000	0.4
Disability Retirees		
DoD	24,000	2.9
Other uniformed services	850	0.1

SOURCE: Congressional Budget Office.

NOTES: DoD = Department of Defense.

The uniformed services comprises members of the military, the Coast Guard, the Public Health Service, and the National Oceanic and Atmospheric Administration.

continued to have that portion of their annuity tied solely to their disability—and reduced dollar for dollar by the amount of their VA disability benefit. However, the offset against the rest of their retirement annuity would have been eliminated. (We will refer to this as partial concurrent receipt.) Disability retirees whose annuities were based solely on their disability (that is, those retirees with less than 20 years of service) would have continued to have their full annuities subject to reduction by the amount of the VA disability benefit.

According to DoD, 145,000 disability retirees had their annuities reduced by $1.2 billion in 2001 because of VA disability payments. Of those retirees, 22,000 who would have been eligible for partial concurrent receipt under S. 170 had their annuities reduced by $253 million. An analysis of retiree records by DoD indicated that, under criteria set forth in the legislation, those retirees would have been eligible to receive about 95 percent of their retirement annuity concurrently with their VA disability benefit. Assuming continuation of current trends in population and benefit growth, CBO estimated that about 23,000 of the disability retirees receiving VA disability benefits in 2003 would have been entitled to an additional $254 million in retirement annuities. The cost of partial concurrent receipt would have been almost $3 billion

over the 2003-2012 period, CBO estimated. In addition, approximately 850 disability retirees from the other uniformed services would have been entitled to an additional $120 million over the 2003-2012 period.

Increased Payments for Veterans' Disability Compensation. Enactment of the Retired Pay Restoration Act of 2001 would have provided an incentive for some military retirees who are eligible for, but not currently receiving, veterans' disability to apply for those benefits. Before VA and DoD began to work together to make applying for VA benefits a part of the separation process, retirees who felt that they had a compensable disability had to apply to VA after leaving the military and arrange for a VA physical. If they were successful in obtaining the disability benefit, they were able to partially offset their retirement pay with an equal amount of nontaxable veterans' benefits. But if retirees felt that they were likely to receive a low disability rating, the tax advantage might not have been a sufficient motive for them to go through the VA's approval process. If concurrent receipt was enacted, however, the incentive for retirees to apply to VA for disability benefits would grow significantly. CBO estimated that outlays for veterans' disability compensation under S. 170 would have increased by just over $3 billion over the 2003-2012 period.

CBO expected that those additional benefits would have gone to two groups:

- Disability retirees who had little incentive to go to VA because their retirement annuity was already nontaxable, and

- Nondisability retirees with relatively minor disabilities.

Data from DoD indicate that 54,000 disability retirees of the uniformed services—52,000 from DoD and about 2,000 from the other uniformed services—do not currently receive disability benefits from VA that they are probably qualified to receive. Because many disability retirees are not taxed on their annuities, they have no incentive under current law to apply for the tax-free VA benefits, as the benefits would be offset, dollar for dollar, against their retirement annuities. S. 170 would have provided a significant incentive for the more disabled of those individuals to apply for disability benefits from VA. CBO estimated that about 15,300 disability retirees might have been eligible for concurrent receipt under the Retired Pay Restoration Act of 2001, but, because many of those retirees are both disabled and quite elderly, CBO expected that only about half of that number would have become aware of the improved benefit and successfully completed the application process. On the basis of retirees' DoD-assessed degree of disability, CBO estimated that outlays for disability

compensation would have increased by $1.5 billion over the 2003-2012 period for increased benefits for disability retirees.

CBO also assumed that, had S. 170 passed, additional nondisability retirees would also apply for and receive disability compensation. CBO estimated that enacting S. 170 might have caused the percentage of nondisability retirees receiving disability benefits from VA to increase gradually from its 2001 level of 34 percent to 45 percent by 2012. Although CBO's baseline already anticipated that type of rise over the next 10 years without concurrent receipt, CBO assumed that under S. 170, that level would be reached some years sooner. CBO estimated that increased outlays for veterans' disability compensation payments to nondisabled military retirees would have been $1.6 billion over the 2003-2012 period.

Loss of Receipts from Premium Payments for the Survivor Benefit Plan. Many retirees have a Survivor Benefit Plan (SBP) premium deducted from their retirement annuity. The SBP was established in Public Law 92-425 to create an opportunity for military retirees to provide annuities for their survivors. Those retirees who are not receiving a paycheck from DoD because their retirement annuity is totally offset by their VA disability benefit may still participate in the SBP by paying the monthly premium to the U.S. Treasury. Those payments are recorded as offsetting receipts (a credit against direct spending) to DoD. According to DoD, approximately 34,000 military retirees paid $23 million in SBP premiums to the Treasury in 2001. DoD also indicated that about $14 million of that amount was paid by about 15,300 retirees who would have begun to receive annuity checks under S. 170. CBO's estimate of the increase in retirement outlays presented above assumed that the SBP premiums of retirees who benefit from the legislation would be deducted from the retirees' annuities and their payments to the Treasury would cease. Under the assumption that current trends in population and benefit growth would continue, CBO estimated that those offsetting receipts would decrease by about $190 million over the 2003-2012 period.

Repeal of Special Compensation for Severely Disabled Retirees. The Retired Pay Restoration Act of 2001 also would have repealed a special compensation program for disabled retirees that was then paying a fixed benefit of $50 to $300 a month to certain uniformed services retirees who were determined to be 60 percent to 100 percent disabled within four years of their retirement. On the basis of information from DoD and the assumption that population growth trends would continue, CBO estimated that about 36,000 DoD retirees and about 600 retirees of the other uniformed services would receive an average monthly benefit of $150 in 2002 and higher amounts in

subsequent years. The savings from repealing this program would have been $710 million over the 2003-2012 period, CBO estimated.

Effect of Enacting the Retired Pay Restoration Act of 2001 on Spending Subject to Appropriation. The military retirement system is financed in part by an annual payment from appropriated funds to the Military Retirement Trust Fund, based on an estimate of the system's accruing liabilities. If S. 170 had been enacted, the yearly contribution to the trust fund would have risen to reflect the added liability from the expected increase in annuities to future retirees. Using information from DoD, CBO estimated that enacting this legislation would have increased such payments by about $15 billion over the 2003-2012 period, assuming appropriation of the necessary amounts.

CBO's Cost Estimate for the Program of Special Compensation for Certain Uniformed Services Retirees with Combat-Related Disabilities

Some of the potential costs of S.170 were eliminated by enactment of section 636 of the National Defense Authorization Act for Fiscal Year 2003, which mandated payments from the personnel accounts of the uniformed services to certain of their retirees who are affected by the ban on concurrent receipt. Under the special compensation program, which DoD must implement by June 2003, retirees of the uniformed services will be eligible to receive payments if they served for 20 years or longer, have a service-connected disability that is related to the injury for which they received a Purple Heart, or have an injury that was incurred as a result of certain duty- or combat-related activities. Last December, CBO estimated that the cost of the new combat-related program, net of the savings from the other special compensation program, would be about $6 billion over the 2003-2012 period. We estimated those costs before DoD had the opportunity to develop the regulations needed to implement the program. Thus, our estimate of the cost of implementing the program could change significantly depending on the type of injuries DoD decides to cover and the amount of documentation the department requires retirees to submit.

Under current law, retirees who are eligible for compensation under this program and under a similar program that partially compensates certain severely disabled retirees would not be allowed to receive both benefits. Because the older program offers compensation that is significantly less than the full VA offset offered by the program that provides compensation for combat-related disabilities, the cost of the older program should decrease, as retirees who are eligible for both switch to the newer program.

The law authorizes benefits for two categories of retirees from the uniformed services. Both groups must have served for 20 or more years and have a qualifying combat-related disability. The first group is composed of Purple Heart recipients whose disabilities are rated at 10 percent or greater and are related to the injury for which they received the Purple Heart. The second group is composed of retirees whose disabilities are rated as 60 percent or greater and whose service-connected disability can be attributed to one of the following causes or situations:

- As a direct result of armed combat,
- While engaged in hazardous service,
- In the performance of duty under conditions simulating war, or
- Through an instrumentality of war.

CBO estimated that about 35 percent of the benefits paid under this special compensation program would go to about 20,000 Purple Heart recipients; the remainder would be paid to about 20,000 other retirees.

Other Adjustments

CBO also updated last year's cost estimate for S. 170 to reflect its latest economic assumptions and to encompass the 2004-2013 period. Our estimates of increases in the consumer price index, which drive our assumptions about cost-of-living adjustments applied to retirement pay and veterans' disability compensation, have fallen from what we assumed in last year's estimate. That change reduces CBO's estimate of full concurrent receipt by $500 million over the 10-year period. Conversely, dropping the relatively low costs for 2003 and adding the higher costs for 2013 adds $2.9 billion to the estimate.